

# HOUSE BILL REPORT

## HB 2543

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### As Reported By House Committee On:

Commerce & Labor

**Title:** An act relating to taxation of gambling activities.

**Brief Description:** Changing taxation of punch boards and pull-tabs.

**Sponsors:** Representatives Cairnes, Sheldon, Cody, Thompson, Romero, Conway, Fuhrman, Radcliff, Chappell, Crouse, Mastin, Schoesler, Huff, Hymes, Wolfe, D. Schmidt, Morris, Grant, Kessler, Brown, Quall, Benton, Costa and Patterson.

### Brief History:

#### Committee Activity:

Commerce & Labor: 1/24/96, 1/29/96 [DPS].

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### HOUSE COMMITTEE ON COMMERCE & LABOR

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives McMorris, Chairman; Thompson, Vice Chairman; Romero, Ranking Minority Member; Conway, Assistant Ranking Minority Member; Cairnes; Cody; Cole; Goldsmith; Horn and Lisk.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Hargrove, Vice Chairman.

**Staff:** Pam Madson (786-7166).

**Background:** Punchboards and pull tabs were authorized as legal forms of gambling in 1973. A year later, social card games were also authorized. These forms of legal gambling can be used to stimulate retail businesses that sell food and beverages for consumption on the premises of the business. Bona fide charitable and nonprofit organizations may use these forms of legal gambling to raise money for the organizations' charitable purposes.

When first authorized, the maximum price of each chance to play punchboards and pull tabs was limited to 25 cents. That amount was increased to 50 cents in 1985.

Counties, cities, and towns may tax gambling activity within their jurisdictions. For revenue from punchboards, pull tabs, and social card rooms, the tax is imposed on

gross receipts. The tax rate on punchboard and pull tab revenue may not exceed 5 percent, and the tax rate on social card room revenue may not exceed 20 percent.

For a social card game to be a legal form of gambling, the game must involve two or more participants as players. Current law does not allow a social card room licensee to participate in a card game as a banker or otherwise.

**Summary of Substitute Bill:** The maximum limit on the cost of a single chance for punchboards or pull tabs is increased from 50 cents to \$1.00.

The practice of taxing the gross revenue or receipts from punchboards, pull tabs, and card rooms is changed. Local governments may impose a tax on gross receipts less the amount paid out by the licensee in prizes, which may reduce the amount of revenue to which the tax applies. The maximum tax rate that local governments may impose on such revenue from punchboards and pull tabs increases from 5 percent to 10 percent. The maximum tax rate that local governments may impose on revenue calculated in this manner for social card rooms is decreased from 20 percent to 10 percent.

If current law is changed to allow a public card room licensee to participate in a card game as the banker, a local government tax may be imposed on the gross revenue that is retained as winnings by the licensee, and the rate of the tax may not exceed 10 percent. This bill does not change the current prohibition against card room licensees acting as bankers in card games.

**Substitute Bill Compared to Original Bill:** Language in the bill is corrected to refer consistently to the local tax base as gross receipts less the amount paid for as prizes. A reference is added to reflect that current law does not allow card room licensees to act as bankers in card games.

**Appropriation:** None.

**Fiscal Note:** Requested on January 17, 1996.

**Effective Date of Substitute Bill:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** Card room operators and punchboard and pull tab licensees have seen a significant drop in business, particularly those businesses located near tribal casinos. Without some immediate relief, many card rooms and those operating punchboards and pull tabs may be unable to compete and will go out of business. Many have laid off employees and some have closed completely. With a decrease in gross receipts, the amount of taxes paid by these businesses has also decreased. Those businesses that support medical coverage and retirement plans for their

employees can no longer afford to offer such benefits. A tax on gross receipts taxes money that a punchboard or pull tab operator may not actually take in because a player may use money he or she wins to continue playing. The operator is taxed on the non-prize money as well as the prize money the player uses to play.

**Testimony Against:** Before the Legislature takes the step to change the tax the local governments can collect from gambling revenue, the fiscal impact must be assessed. Local governments have the option to reduce tax rates now to provide some relief to businesses.

**Testified:** Representative Jack Cairnes, prime sponsor; (pro) Dave Storkson; Bill Tackitt; Steve Downen; George Tweeney; Dave Pardy; Fred Steiner; Vern Pruss; Bob Materne; Gary McCleanahm; Art Lawerson; Robert Saucier; Jim Springer; Gary Murrey; Alan McWain; Tim Hurst; Bob Synoground; Kit Hawkins, Restaurant Association of Washington; Ed Dales; (opposed) Dick Dorsett, Pierce County; (with concerns) Maureen Morris, Association of Washington Cities; and (for questions) Frank Miller, Director, Washington State Gambling Commission.